

**REPORT OF THE AUDIT OF THE
FORMER MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**

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The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil Cochran, Jr., Former Madison County Sheriff
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the former Sheriff of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the former Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the former Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the former Sheriff and the revenues, expenditures, and fund balances of the former Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

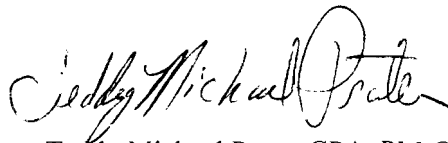
In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discuss the following report comment.

- The Former Madison County Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of former Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Teddy Michael Prater". The signature is written in dark ink and is positioned above the printed name.

Teddy Michael Prater CPA, PLLC

July 12, 2007

MADISON COUNTY
CECIL COCHRAN, JR., FORMER SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants		\$	36,311
State - KLEFPF			59,642
State Fees for Services			
Finance and Administration	\$	53,670	
Cabinet for Human Resources		4,075	
Sheriff Security Services		<u>102,417</u>	160,162
Circuit Court Clerk			14,745
Fiscal Court			206,505
County Clerk			6,303
Commission on Taxes			852,693
Fees Collected for Services:			
Auto Inspections	\$	28,726	
Accident and Police Reports		180	
Serving Papers		109,878	
Carrying Concealed Deadly Weapon Permits		25,790	
Sheriff's Advertising Fees		8,211	
Sheriff's 10% Add-on Fee		<u>114,274</u>	287,059
Other revenues:			
Interest Earned	\$	51,121	
Miscellaneous		<u>11,274</u>	<u>62,395</u>
Total Revenues			\$ 1,685,815

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 CECIL COCHRAN, JR., FORMER SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGUALTORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:		
Carrying Concealed Deadly Weapon Permits		\$ 13,600
Payments Made to County:		
Ordinance Fees	\$ 30,690	
Other	<u>2,044</u>	32,734
Other Expenditures:		
Reimbursements	\$ 35,023	
Miscellaneous	<u>378</u>	<u>35,401</u>
Total Expenditures		<u>\$ 81,735</u>
Net Revenues		\$ 1,604,080
Payments to State Treasurer:		
75% Operating Fund	\$ 1,382,528	
25% County Fund	<u>221,552</u>	<u>1,604,080</u>
Balance Due at Completion of Audit		<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 CECIL COCHRAN, JR., FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2006 (Note 7)	\$ 15,780	\$ -	\$ 15,780
Revenues			
Fees Paid to State - Operating Funds (75%)	1,382,528		1,382,528
Fees Paid to State - County Funds (25%)		221,552	221,552
Total Funds Available	1,398,308	221,552	1,619,860
Expenditures			
Payments to Madison County Fiscal Court	187,427	221,552	408,979
Personnel Services-			
Sheriff's Salary	89,153		89,153
Deputies' Salaries	623,445		623,445
Part-Time Salaries	20,146		20,146
Overtime Gross	41,266		41,266
Employee Benefits-			
Employer's Share Social Security	55,371		55,371
Employer's Share Retirement	177,428		177,428
Employer's Paid Health Insurance	61,231		61,231
Other Payroll Disbursements	4,683		4,683
Operating Expenses	98,071		98,071
Capital Outlay	40,087		40,087
Total Expenditures	1,398,308	221,552	1,619,860
Fund Balance - December 31, 2006	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 4. Forfeited Federal Funds Account

The former Madison County Sheriff maintained a Forfeited Federal Funds Account. These funds were used in law-enforcement activities against drugs and were not considered in determining excess fees. As of January 1, 2006, the former Sheriff had a balance of \$13,677 in the Forfeited Federal Funds Account. During 2006, the former Sheriff received \$560 in the Forfeited Funds Account. There were \$13,590 in expenditures. This left a balance as of December 31, 2006 of \$647. This account was subsequently signed over to the incoming Sheriff.

Note 5. Grant Funds Account

The former Madison County Sheriff maintained a Grant Funds Account for grant receipts. This account consists of grants received by the Madison County Sheriff's Department. As of January 1, 2006, the former Sheriff had a balance of \$0 in the Grant Funds Account. During 2006, the former Sheriff received \$31,734 in the Grant Account. There were \$15,770 in expenditures. This left a balance as of December 31, 2006 of \$15,964. This account was subsequently signed over to the incoming Sheriff.

Note 6. Special Account

The former Madison County Sheriff maintained a Special Account for the solicitation of donations toward department calendar purchases for the public and for supporting community service programs. As of January 1, 2006, the former Sheriff had a balance of \$5,864 in the Special Account. During 2006, the former Sheriff received \$1,633 in the Special Account. There were \$7,497 in expenditures. The account was closed at the end of term.

Note 7. Prior Period Adjustment

The beginning balance was restated by \$5,000 due to an understatement of the ending balance in prior year audits

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Kent Clark, Madison County Judge/Executive
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Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the former Madison County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated July 12, 2007. The former Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Madison County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Madison County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Madison County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Madison County Sheriff's Office Lacked Adequate Segregation Of Duties

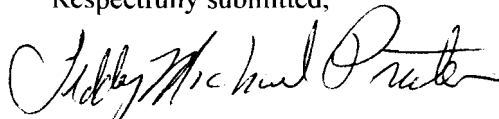
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Madison County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Madison County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Teddy Michael Prater". The signature is fluid and cursive, with the first name "Teddy" being particularly prominent.

Teddy Michael Prater CPA, PLLC

July 12, 2007

COMMENT AND RECOMMENDATION

MADISON COUNTY
CECIL COCHRAN, JR., FORMER, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Madison County Sheriff's Office Lacked Adequate Segregation Of Duties

The former County Sheriff's office lacked adequate segregation of duties for receipts. The employee who recorded cash receipts also prepared the deposits and completed the bank reconciliation. Good internal controls dictate that the same employee should not handle, record, and reconcile cash receipts. If these duties could not be segregated, the former Sheriff could have implemented compensating controls such as the Sheriff recounting and agreeing daily deposits to the daily tax reports, agreeing daily deposits to the receipts ledger, and reviewing the monthly bank reconciliations.

Former Sheriff's Response: None

PRIOR YEAR:

THE SHERIFF'S OFFICE LACKS ADEQUATE SEGEGATION OF DUTIES - Repeated